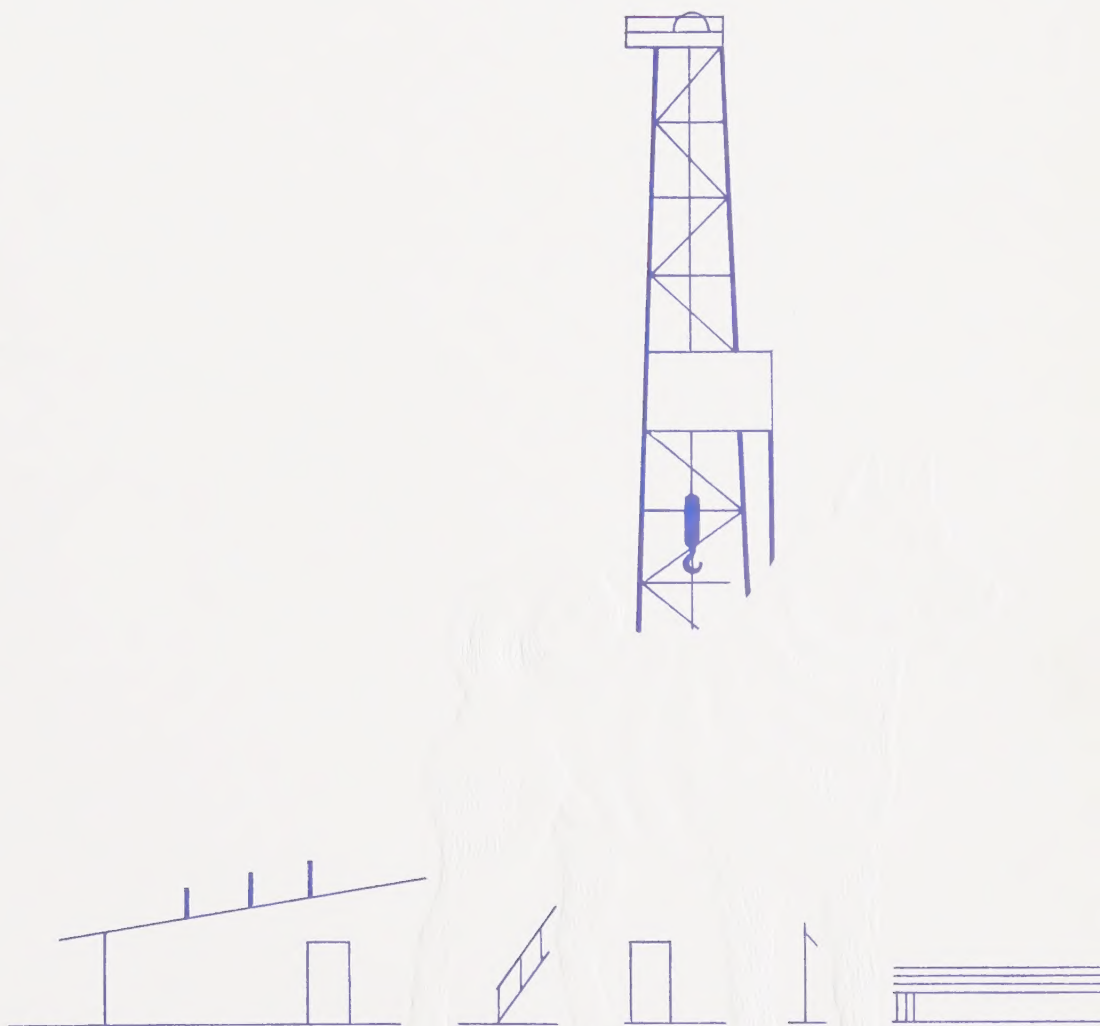



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Canadian **HUSKY** *Oil Ltd.*

12TH ANNUAL REPORT 1958





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GENERAL OFFICE

815 Sixth Street West, Calgary, Alberta.

REFINERIES

Lloydminster, Alberta
Moose Jaw, Saskatchewan
Fort William, Ontario

REGIONAL MARKETING OFFICES

Calgary, Alberta; Fort William, Ontario

DIVISIONAL MARKETING OFFICES

Edmonton, Alberta; Regina, Saskatchewan; Winnipeg, Man.

CANADIAN HUSKY OIL LTD. 12TH ANNUAL REPORT 1958

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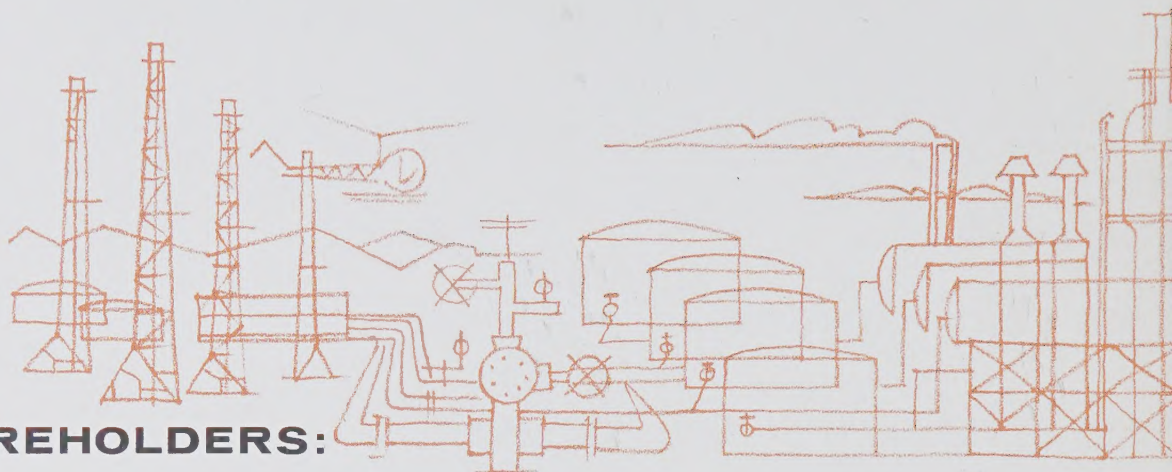




A COMPARISON 1958-1957

	1958	1957
FINANCIAL		
Gross operating income	\$16,078,741	\$18,951,120
Net earnings before other charges	1,935,569	3,364,102
Net working capital	7,025,471	7,501,754
GROWTH EXPENDITURES		
Exploration	900,102	1,422,601
Development expense on Company owned wells	1,007,583	1,815,249
Refining and marketing additions and improvements	1,280,968	1,411,364
OPERATIONS		
Crude oil produced (barrels)	806,298	937,485
Crude oil processed (barrels)	3,461,712	4,060,887
Natural gas produced (MCF)	991,305	807,066

Savanna Creek No. 10-8, the seventh successful well in the Savanna Creek gas field. Canadian Husky has pioneered in discovery and development of Savanna Creek, one of Canada's many large natural gas reservoirs.



TO THE SHAREHOLDERS:

Canada's oil activity in 1958 was marked by restricted crude oil and natural gas production and an oversupply of refined products. These conditions had an adverse effect on Canadian Husky's financial results for 1958 but have not altered the Company's prospects for continued growth.

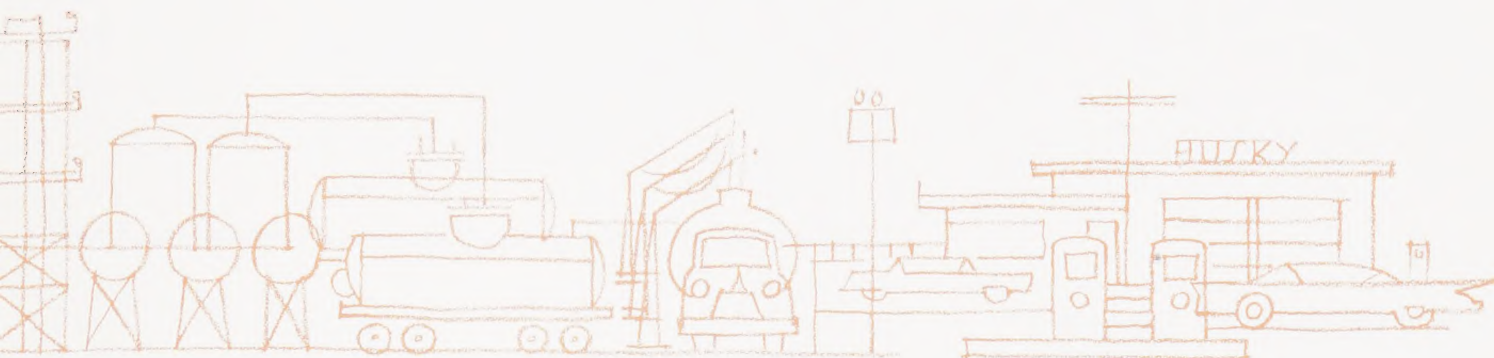
Canadian Husky's gross operating revenues of \$16 million were down 15 per cent from the all time high recorded in 1957. Net earnings before depreciation, depletion, interest and exploratory writeoffs were \$1.9 million compared to the record high of \$3.4 million in 1957. Because of lower income, and in keeping with Company policy, expenditures for development and exploratory drilling were reduced.

The Company's financial position remains strong with net working capital of \$7 million and nearly \$12 million in other funds available for growth and expansion.

Many serious problems confront the young Canadian oil industry. Imported crude oil and refined products still supply nearly one-half of the total Canadian market. At the same time, crude oil producers in Western Canada, able to sell only about one-half of the oil they can produce, are attempting to find additional markets at a time of world-wide surplus of crude oil. It is readily apparent that Canadian crude oil must be used for Canadian consumption if the nation's oil industry is to continue to develop.

Natural gas presents another problem. Canada has proven reserves far greater than foreseeable domestic needs and in this case markets for the surplus are readily available in adjacent areas of the United States. Even though competent authorities agree that export of surplus gas would be in the best interest of Canada, companies have and are encountering continued delay in obtaining permission from Canadian government bodies to serve export markets now available.

In 1958 the national demand for refined products fell below the anticipated levels and Canadian stocks of such products became abnormally high. The resulting pressure on



prices materially reduced profit margins for refiners generally. Canadian Husky's profits were likewise reduced.

We do not regard current industry's problems as permanent but rather as a pause for consolidation in the long upward movement of Canada's economy. The nation's vast reserves of natural resources and ever increasing demand for all forms of energy are assurances of its growth potential. However, continued government delay in meeting problems of excess crude oil and gas productive capacity has adversely affected immediate prospects.

Although the oil industry is showing signs of improvement, we do not look for a return in 1959 to the activity that characterized its growth during the period from 1947 to 1957. Favourable decisions of government bodies in Canada on pending matters of gas export and oil import could radically change the rate of recovery.

We express our appreciation to employees, shareholders and customers for their loyal support during 1958. The able and experienced people who conduct Canadian Husky's business are its strongest asset and will assure the Company's growth in years ahead.

Sincerely,

GLENN E. NIELSON
President

March 25, 1959



REVIEW OF 1958

FINANCIAL REVIEW

Canadian Husky's consolidated gross operating income for 1958 was \$16,079,000, a decrease of 15 per cent from the \$18,951,000 recorded in 1957. Net earnings before charges set out below were \$1,936,000, compared to \$3,364,000 last year.

Charges against net earnings included \$1,860,000 for depreciation and depletion, \$571,000 for interest on debt and \$1,387,000 for exploration costs. After these charges and other adjustments, the Company ended 1958 with a net loss of \$1,768,000, compared to a net loss of \$131,000 in 1957.

Canadian Husky's lower level of income in 1958 was anticipated and steps were taken to limit its effect. As a result, our financial position remains strong. Net working capital at the end of 1958 was \$7,025,000, including \$3,542,000 cash and marketable securities. In addition, we have \$11,887,000 available from outside sources for future requirements. Included in this total are \$7,000,000 in production loans, \$3,000,000 in working capital loans, and \$1,460,000 from the sale of drilling rigs.

Our policy is to conserve adequate funds to carry out drilling programs and build field plants which will be required when governments authorize sale of our gas production to export markets.

All operating divisions of the Company experienced a decline in earnings in 1958 but show signs of improvement for 1959. Refining and marketing operations were faced with sharp price competition and decreased profit margins in 1958. Our inventories were reduced during the year and we entered 1959 in a better balanced position.

Because of the nature of our crude oil reserves, the Company has been more severely affected by mar-

ket prorationing than most other producers and experienced a decline in production income in 1958. For the same reason, improvements in the total market for Alberta crude oil would increase our production by a much greater amount than the industry average.

GROWTH EXPENDITURES

	1958	1957
Development Drilling	\$1,007,583	\$1,815,249
Exploration	900,102	1,422,601
Marketing Facilities	914,106	594,520
Refinery Improvements	366,862	816,844
	\$3,188,653	\$4,649,214

Growth expenditures, shown above in detail, were reduced by 30 per cent in 1958. Expansion and modernization programs at the refineries were nearly all completed in 1957. Development drilling was generally limited to wells necessary to retain desirable acreage and define important fields. Exploration expenditures were also reduced to a lesser degree.

The Company's capitalization was increased to 5,000,000 common shares by the authorization of an additional 1,000,000 shares. Of the 442,143 common shares issued during 1958, 439,720 were for the assets of Liberal Petroleum Ltd. which brought to Canadian Husky 8,350,000 barrels of crude oil reserves, 123,555 net acres of land and four drilling rigs. The reserves had been developed on a carried interest basis and therefore production from them did not add to income during the year. Based on 1958 rate of production, the carried interest will be paid out in 1961.

The four drilling rigs, together with six owned by Canadian Husky, were later sold to independent



drilling contractors. Total sale price of \$1,535,000 is payable to the Company in installments over a five-year period. Sale of the rigs discontinued a source of cash flow but improved operating efficiency.

Long term debt was increased by issuance of \$3,500,000 of 15-year 5½ per cent Sinking Fund Debentures in April. Net proceeds from the issue were \$3,285,210. The debentures carried warrants for purchase of 20 Canadian Husky common shares for each \$1,000 of debentures. They may be exercised at \$11 per share to December 1960 and \$14 per share to December 1964.

The sale of debentures was particularly advantageous since it allowed us to retire all short term debt at a time of general uncertainty in the industry. Sinking Fund payments are \$70,000 annually for the first five years, whereas the short term debt was being repaid at \$500,000 per year.

During 1958, we revalued the Company's Lloydminster crude oil producing properties in the light of changing economic conditions in that area. Improved exploration and development methods have led to discovery and delineation of new reserves which will be more economical to produce and are readily available to meet future needs of our Lloydminster refinery. At the same time, decreased crude oil prices and other factors have made a large portion of our reserves in older Lloydminster pools uneconomic.

As stated in the financial statements, capitalized drilling and land acquisition costs in the Lloydminster area have been written down by \$4,304,962. Only that portion of such costs now considered economically recoverable remains on the Company's books.

For 1959 we expect general improvement in Canadian Husky's financial results. Products sales and prices have already shown improvement and crude oil production is above the 1958 level. As soon as natural gas marketing is approved, gas production will add a major source of future revenues for the Company.

LAND

At the end of 1958, Canadian Husky held 6,104,000 gross acres under leases and reservations in Alberta, Saskatchewan, the Yukon and Northwest Territories, and Alaska. Net holdings were 1,176,000 acres, compared to 3,963,235 acres at the end of 1957.

During 1958, we entered into a farmout agreement on a net carried interest basis with two major producing companies which will allow Canadian Husky to participate in exploring Canada's North-

land without cost. The agreement covers 3,850,000 acres in the Yukon and Northwest Territories. We acquired most of this land early in 1957 and carried out geological studies on it during the past two summers.

The studies revealed a number of promising features that warrant further exploration. However, the large size of the undertaking made it advisable to bring in other operators. Under the farmout agreement, our investment has been returned and we retain a seven per cent net carried interest in the property.

Canadian Husky acquired 240,000 acres for its own account in the Norman Wells area of the Northwest Territories where crude oil reserves have already been established by others. We will begin exploring this acreage in 1959.

We also acquired leases on 93,000 net acres in Alaska during the year, and applications for additional land have been filed. This land is in the Bristol Bay and Bethel Basin areas of southwestern Alaska, which have been the scene of widespread leasing and exploratory activity since discovery of oil on the Kenai Peninsula in 1957.

GAS SALES CONTRACTS

A contract has been signed with Trans-Canada Pipe Lines Limited for the sale of approximately 70 million cubic feet of gas per day from the Dick Lake field at favorable terms. Since the Trans-Canada contract is not tied to export of gas from Canada, we expect gas sales from the unit to begin in 1960 at an initial price of 13¼ cents per thousand cubic feet plus a premium for high heating value of the gas.

The remainder of the gas at Dick Lake is under contract to Alberta and Southern Gas Co. Ltd. for export to the United States. If Alberta and Southern is denied permission to export gas, Trans-Canada will purchase the entire production of the field.

Our contract with Westcoast Transmission Company Limited for sale of gas from the Savanna Creek field has been extended another year due to delay in gas export decisions. Westcoast proposes to take 60 million cubic feet per day initially plus additional volumes as they become available.

Both Westcoast and Alberta and Southern are now awaiting approval of governments to take gas out of Canada and applications for gas import have been filed with the Federal Power Commission in the United States.

EXPLORATION AND DEVELOPMENT

Our more important operations for 1958, in addition

to the farmout of the far Northern land, are summarized below:

Savanna Creek Seven gas wells have now been completed in the Savanna Creek field with a combined open-flow potential of 184 million cubic feet per day. Canadian Husky's interest in the field is 32.5 per cent. Three wells were completed during 1958 and one early in 1959. In view of the uncertain gas market, drilling was limited to step-out wells designed to establish the field's productive limits, which are still unknown, and to hold acreage. A seismic program was carried out on the northern end of the structure to assist in locating a step-out well in that direction.

Two of the wells drilled on the south end of the structure established gross pay sections of approximately 1,300 feet each. They extended the productive limits of the field further south than previously predicted.

Dick Lake Engineering work on a gas processing plant for the Dick Lake gas-condensate field has already started and further exploration and development of the area is planned for 1959. Canadian Husky's interest in the Dick Lake unit is 13.5 per cent. We have the same interest in additional land recently acquired adjacent to the unit and a 50 per cent interest in other lands adjoining the unit.

Bellshill Lake Area Canadian Husky participated in drilling 11 exploratory wells, one an oil discovery and four gas discoveries. We also participated in drilling 18 development wells, 15 of them successful. Twenty-two wells were drilled on our land by others under farmout agreements, resulting in eight oil wells.

Canadian Husky has various working interests in 32 oil wells and royalty interests in six oil wells in the Bellshill Lake field. We also have interests in other oil and gas wells in this general area.

Lloydminster Our Lloydminster exploration program was continued in 1958 with excellent results. Twenty-two slim holes were drilled, resulting in discovery and delineation of one new pool and major extensions of two others. Seven successful development wells, drilled to protect acreage, further confirmed the findings of the slim holes.

Study and experience have led to several changes in operations at Lloydminster in recent years. The slim holes yield reliable information at a fraction of the cost of a conventional exploratory well. Although they are drilled for information only and must be followed by development drilling, they contribute greatly to more economical operations by virtually eliminating dry holes and marginal wells in developing a pool. They also permit field

**LOCATION OF
ACREAGE IN
WHICH CANADIAN
HUSKY HAS
INTERESTS**



**CANADIAN HUSKY'S
ALASKA ACREAGE**



**PRINCIPAL
AREAS WHERE
CANADIAN HUSKY
HAS OIL AND
GAS PRODUCTION**

Oil ■
Gas ●



**CANADIAN HUSKY'S
MARKET AREA
AND REFINERIES**

Market area ○
Refineries 🏭



development on a spacing pattern of 40 acres per well instead of the 10 or 20 acres used in the past, thereby reducing development costs.

These and other innovations will contribute to improved production economics from pools to be developed in the future, and add to the supply of crude oil for our Lloydminster refinery.

DRILLING

In 1958 Canadian Husky participated in drilling 50 wells on Company-held land. An additional 35 wells were drilled on our land by others under farmout agreements. We also acquired an interest in 53 wells through the purchase of Liberal Petroleum Ltd.

	1958 DRILLING (gross wells)			
	Oil	Gas	Abandoned	Total
Exploratory Drilling	1	5	11	17
Development drilling	25	5	3	33
Total	26	10	14	50

Farmouts drilled by
others on Cana-
dian Husky land

	15	2	18	35
Wells purchased	48	5	—	53
Total additions	89	17	32	138

In addition, one exploratory well, three development wells and one farmout well were drilling at the end of the year. The 22 slim holes drilled at Lloydminster and one salt water disposal well are not included in these figures.

Curtailed drilling activity and the resulting surplus of drilling rigs made it more economical and practical for the company to employ drilling contractors than to operate its own drilling equipment. Therefore, Canadian Husky sold all of its drilling rigs to independent contractors in 1958.

PRODUCTION

Canadian Husky's net crude oil production for 1958 was 806,298 barrels, a decrease of 14 per cent from 937,485 barrels produced last year. The total does not include 132,794 barrels from the South Sturgeon Lake field produced under a net carried interest which should begin to contribute to cash earnings in 1961. Natural gas production increased 23 per cent to 991 million cubic feet but is still only seven per cent of potential.

Low net production for 1958 reflects the reduced market demand for Alberta crude oil throughout the year and delayed gas sales. Canadian Husky's 1958 production from all areas except Lloydminster ranged from 18 per cent of potential in Alberta to 90 per cent in Saskatchewan.

REVIEW OF 1958

Under Alberta prorationing regulations, each producing well in the province is assigned a minimum economic production rate and a maximum permissible rate based upon conservation principles. Market demand for crude oil in excess of the total minimum rate of all wells is allocated to wells in proportion to their maximum permissible rate. Thus fields with high productive potentials such as Westeros and South Sturgeon Lake where a large part of Canadian Husky's reserves are located, are extremely sensitive to market demand.

Proceeds to the Company from net production of oil and gas from all areas were \$928,585 in 1958, after deducting production costs. If all wells, including those at South Sturgeon Lake, had produced at maximum permissible rate, proceeds from production would have been \$6,665,000, or more than seven times the actual amount.

REFINING

Crude oil throughput at the three Canadian Husky refineries decreased in 1958 as a result of the decline in bunker fuel oil sales. Average throughput was 9,484 barrels per calendar day in 1958 compared to 11,126 barrels in 1957. Total for the year was 3,462,000 barrels, down 15 per cent from 4,061,000 barrels in 1957.

Refinery products inventories were reduced, resulting in an improved supply to market ratio as we entered 1959.

A new Diesulformer, asphalt blowing unit and additional storage and handling facilities, begun in 1957 at the Fort William refinery, were completed in 1958. No other major plant additions or process changes were made at the refineries in 1958.

MARKETING

The Company has been and is a leader in Canada in the use of modern types of process units. These include platinum type catalytic reformers for the manufacture of high octane gasolines, catalytic hydrogenation equipment for the production of high quality intermediates and modern asphalt processing equipment. In addition, new processes are being studied continually to determine their applicability to our operations.

Canadian Husky's total sales revenue from marketing was \$14,510,388 for 1958, compared to \$16,578,316 recorded in 1957.

The reduction was caused by a small decrease in volume of products sold and severe price competition resulting from an over-supply of nearly all petroleum products in our general marketing area. Toward the end of 1958, inventories in the in-

dustry had reached a more satisfactory level and prices have begun to strengthen.

Total sales volume was down only 5.3 per cent from last year, despite a 22 per cent reduction in bunker fuel sales. Conversion of the railroads to diesel locomotives accounts for the decrease. We expect sales of finished products to continue to increase as bunker fuel volume declines, giving better profits.

Asphalt sales from all three refineries continue to improve. Shipments during 1958 increased 10.4 per cent over the previous year and highway construction plans announced for the 1959 season indicate an even larger total market for asphalt will be available.

The tempo of construction and asphalt paving of our highway system is increasing each year. Arterial, secondary and farm-to-market roads are rapidly being improved. Modern asphalt highways are the best, yet the most economical, of Canada's commercial arteries. Highway departments are now emphasizing these facts in their planning.

In keeping with expansion of Western Canada's highways, Canadian Husky continues to expand its facilities to serve the traveling public. During 1958, the first Husky retail outlets in Manitoba were opened as we added 16 service stations in the Winnipeg area and a new Travelcentre on the Trans-Canada Highway at Brandon. Nine other outlets were opened in our market area, including another Travelcentre at New Liskeard, Ontario. At the end of 1958, there were 154 Husky sales outlets extending from Eastern Ontario to the Rocky Mountains.

During the year we introduced a new additive to all Husky gasolines. This new petroleum additive concentrate, known as Hi-Pac, is a major development in combating three of the most serious problems confronting motorists—carburetor icing, loss of power and corrosion of fuel systems.

Advertising, sales promotion and sales training activities were emphasized during 1958 to familiarize the public with Husky products. A dealer instruction program was also stressed to promote more profitable service station operations and maintain high service standards.

Our fueling ship, serving Great Lake ships at Port Arthur and Fort William, is proving to be a valuable addition to Husky's marketing services. Deliveries from the ship increased 68 per cent over 1957, and now constitute a major portion of the bunker fuel sales from the Fort William refinery. We expect further improvement in sales through this medium following the opening of the St. Lawrence Seaway in 1959.

HUSKY TRAVELCENTRES



THE TRAVELCENTRES

Travelcentres form the nucleus of Canadian Husky's retail marketing program. They were introduced to Western Canada by the Company late in 1955. By the end of 1958 there were 12 in operation at locations on the Trans-Canada Highway and its principal alternates from New Liskeard, Ontario to Calgary, Alberta.

Travelcentres are considerably more than ordinary service stations and therefore represent a larger capital investment. They feature Husky petroleum products and contain servicing facilities for all types and sizes of motor vehicles. Dormitories, shower rooms and lounges are available for truckers. Service bays are oversized to handle the largest trucks operating on Canadian Highways.

An important part of the Travelcentre is the Husky House Restaurant, featuring menus adapted to the needs of travelers. Meals are prepared with the most modern equipment. The Company's standards of cleanliness, service and quality are carefully supervised.

Travelcentres have filled a great need for service to travelers on Western Canada's highways. The public's acceptance of them is shown by increases each year in the volume of products sold. We expect to continue building this type of outlet where available locations and traffic patterns warrant such services. Smaller outlets are constructed or acquired to augment the Travelcentre program.

MANAGEMENT

In 1958, Mr. L. J. Campbell was promoted to Vice-President, Refining. Mr. Campbell began his business career with Husky Oil Company at Cody, Wyoming in 1941 and was transferred to Canada in 1947. When Canadian Husky became an independent company he remained in Canada as refinery manager of the Company.

Mr. J. R. McNulty was promoted to Vice-President, Industrial Relations in 1958. He has been active in personnel and industrial relations for over 20 years, the last ten years of which were spent with Husky Oil Company.

TOP—Travelcentres span Canada's west from Ontario to the Rockies.

CENTRE—Service for all travellers is the watchword at all points.

LEFT—Travelcentres are designed for maximum service and efficiency.

CANADIAN HUSKY OIL LTD. AND SUBSIDIARIES

DECEMBER 31, 1958 (WITH COMPARATIVE FIGURES FOR 1957)



ASSETS

	1958	1957
CURRENT ASSETS:		
Cash	\$ 2,449,822	\$ 3,612,630
Government of Canada and other marketable securities—at cost including accrued interest (market value 1958, \$1,089,230; 1957, \$15,506)	1,092,451	16,221
Notes and accounts receivable, less allowance for doubtful accounts 1958, \$128,072; 1957, \$226,411	2,913,821	3,447,095
Inventories at lower of cost or replacement market	3,067,512	3,885,850
Prepaid expenses	193,005	261,650
Total current assets	9,716,611	11,223,446
OTHER ASSETS:		
Notes and contracts receivable, less amounts due within one year included in current assets above	1,524,656	261,592
Idle equipment at book value	105,759	—
Operating deposits, sundry investments and rental properties—net	290,670	165,419
	1,921,085	427,011
PETROLEUM AND NATURAL GAS PROPERTIES (Note 1):		
Oil and gas wells, including capped gas wells—at cost, except as stated in Note 1, less accumulated depreciation and depletion 1958, \$2,472,411; 1957, \$4,358,980	12,221,348	15,441,121
Wells in progress—at cost	174,969	951,000
Undeveloped reservations and leases—at cost	2,054,363	2,593,251
	14,450,680	18,985,372
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Land—at cost	381,109	376,491
Buildings, plant, machinery and equipment—at cost, less accumulated depreciation 1958, \$3,534,514; 1957, \$3,531,410	6,781,923	7,098,737
Construction in progress—at cost	639,123	891,565
	7,802,155	8,366,793
Excess of investment carrying value over equity in subsidiary company, consolidated, at date of acquisition less amount amortized	63,368	77,194
	7,865,523	8,443,987
INTANGIBLES—organization expenses and trademarks, less amounts written off	3,689	3,689
GOODWILL	470,760	470,760
	<u>\$34,428,348</u>	<u>\$39,554,265</u>

The accompanying notes 1 to 6 are an integral part of this financial statement.

ARIES CONSOLIDATED BALANCE SHEET

FIGURES AT DECEMBER 31, 1957)

LIABILITIES

	1958	1957
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (including taxes other than income 1958, \$147,309; 1957, \$137,028)	\$ 1,659,693	\$ 2,406,272
Income taxes payable—estimated	92,193	—
Dividend payable	53,522	—
Current portion of long term debt	885,732	1,315,420
Total current liabilities	2,691,140	3,721,692
LONG TERM DEBT (Note 2):		
Due to bank—production loan, less amount due within one year, included in current liabilities 1958, \$1,000; 1957, \$500,000	—	1,416,668
Notes and contracts payable, less amounts due within one year, included in current liabilities 1958, \$44,732; 1957, \$45,420	81,665	126,398
Funded debt (Note 2)	10,350,000	7,690,000
	10,431,665	9,233,066
NOTE PAYABLE (Note 3)	3,000,000	3,000,000
STOCKHOLDERS' EQUITY (Notes 1, 3 and 4):		
Six per cent (6%) cumulative redeemable preferred shares, par value \$50 each; authorized 80,000 shares; issued and outstanding 71,363 shares	3,568,150	3,568,150
Common stock par value \$1 per share; authorized 1958, 5,000,000 shares; 1957, 4,000,000 shares; issued and outstanding 1958, 3,056,533 shares; 1957, 2,614,390 shares	3,056,533	2,614,390
Other paid in capital	14,819,583	14,387,738
Reinvested earnings (deficit)	(3,138,723)	3,029,229
	18,305,543	23,599,507
COMMITMENTS AND CONTINGENCIES (Note 5)		

Approved on behalf of the Board:

GLENN E. NIELSON, *Director*

L. W. LEE, *Director*

\$34,428,348 \$39,554,265

t of the consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED		1958	1957
DECEMBER 31, 1958	INCOME:		
(WITH COMPARATIVE	Net refinery and marketing sales	\$14,510,388	\$16,578,316
FIGURES FOR 1957)	Other operating revenue	1,568,353	2,372,804
		<u>16,078,741</u>	<u>18,951,120</u>
	Cost of sales and operating expenses, exclusive of expenses specifically set forth below	12,910,318	14,086,466
	Selling, general and administrative expenses (including for 1958, officers' salaries, \$185,750, directors' fees, \$5,000 and legal fees \$28,478)	1,798,480	1,734,404
		<u>14,708,798</u>	<u>15,820,870</u>
	Net operating profit exclusive of depreciation and depletion	1,369,943	3,130,250
	Other income	565,626	233,852
		<u>1,935,569</u>	<u>3,364,102</u>
	Net earnings before other charges		
	OTHER CHARGES:		
	Lease abandonments, non-productive drilling and undeveloped lease expense	1,200,478	700,546
	Land, exploration and geological department expense	186,207	182,188
	Interest charges	571,185	590,668
		<u>1,957,870</u>	<u>1,473,402</u>
	Earnings (loss) before depreciation and depletion	(22,301)	1,890,700
	Depreciation	1,232,207	1,267,339
	Depletion	628,040	754,537
		<u>1,860,247</u>	<u>2,021,876</u>
	Net loss before the following credit	(1,882,548)	(131,176)
	Estimated reduction of liability for prior years' income taxes and interest thereon, of a subsidiary company	115,000	—
		<u>\$(1,767,548)</u>	<u>\$ (131,176)</u>
	Net loss		

CONSOLIDATED STATEMENT OF SURPLUS

YEAR ENDED		Other Paid In Capital	Reinvested Earnings (Deficit)	Total
DECEMBER 31, 1958	BALANCE AT BEGINNING OF YEAR	\$14,387,738	\$ 3,029,229	\$17,416,967
	Acquired due to acquisition of Liberal Petroleum Ltd.	406,665	(95,442)	311,223
		<u>14,794,403</u>	<u>2,933,787</u>	<u>17,728,190</u>
	Add:			
	Excess of consideration received over par value of 442,143 common shares issued (Note 3)	454,059	—	454,059
		<u>15,248,462</u>	<u>2,933,787</u>	<u>18,182,249</u>
	Deduct:			
	Net loss for the year	—	1,767,548	1,767,548
	Expenses incurred on issue of 5½% Sinking Fund Debentures Series B.	214,790	—	214,790
	Dividends paid on 6% cumulative redeemable preferred shares	214,089	—	214,089
	Revaluation of certain oil and gas properties (Note 1)	—	4,304,962	4,304,962
		<u>428,879</u>	<u>6,072,510</u>	<u>6,501,389</u>
	BALANCE AT END OF YEAR	<u>\$14,819,583</u>	<u>\$ (3,138,723)</u>	<u>\$11,680,860</u>

The accompanying notes 1 to 6 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1958

1. PETROLEUM AND NATURAL GAS PROPERTIES:

Certain petroleum and natural gas properties located in the Lloydminster area and carried at a net value of \$4,531,880 as of January 1, 1958, were revalued by reason of economic conditions affecting the production and sale of low gravity crude oil. This restatement of values resulted in a net charge to reinvested earnings (deficit) in the amount of \$4,304,962 during 1958. The revised values accorded to the properties were determined by the company's engineering and production staff. As a result of the revised values the provision for depletion for the year 1958 is approximately \$1,153,000 less than it would have been based on book value prior to the adjustment.

2. FUNDED DEBT (HUSKY OIL & REFINING LTD.):

	December 31	
	1958	1957
3¾% First Mortgage Serial Bonds Series A maturing in the amount of \$650,000 on December 15, 1959 and December 15, 1960 and in the amount of \$750,000 on December 15, 1961	\$ 2,050,000	\$2,700,000
5% Sinking Fund Debentures Series A maturing December 15, 1969	5,640,000	5,760,000
5½% Sinking Fund Debentures Series B maturing May 1, 1973	3,500,000	—
	11,190,000	8,460,000
Less amount due within one year included in current liabilities	840,000	770,000
	\$10,350,000	\$7,690,000

Property specifically mortgaged as security for the funded debt includes real and immovable property presently owned by Husky Oil & Refining Ltd. (excluding petroleum properties and residential properties) and shares in the capital stock of one of its subsidiary companies having a book value of \$5,827,744 on December 31, 1958.

3. CAPITAL:

During the year the company's authorized share capital was increased from 4,000,000 to 5,000,000 shares of a par value of \$1.00 per share.

The company has entered into agreements with certain officers and employees whereby they have the opportunity to purchase common shares of the company at fixed prices ranging from \$6.50 to \$11.25 per share, the price per share being the quoted price of the shares at the date of the agreement or, in certain instances, of a predecessor agreement. The company has reserved 135,618 common shares for sale to employees. The shares may be purchased only at specific times. At December 31, 1958 there were 107,076 shares under option. These options become exercisable during the years 1959 to 1968.

At December 31, 1958 there were stock purchase warrants outstanding giving to the holders thereof the right to purchase 307,900 shares of common stock of the company. These warrants are exercisable as follows:

270,400 at \$11.00 per share up to and including December 14, 1960 and thereafter at \$14.00 per share up to and including December 14, 1964.

37,500 at \$24.00 per share up to and including August 1, 1967.

The following common shares were issued during the year ended December 31, 1958:

NUMBER OF SHARES	CONSIDERATION	CREDITED TO	
		COMMON SHARES	OTHER PAID IN CAPITAL
439,720	All of the assets and undertakings of Liberal Petroleum Ltd.	\$439,720	\$439,721
2,323	Cash (issued to employees under incentive share purchase plan)	2,323	13,338
100	Cash (issued through the exercise of warrants)	100	1,000
442,143		\$442,143	\$454,059

The agreement covering the note payable in the amount of \$3,000,000 provides that money advanced shall be payable on demand, without interest except that it may be repaid in common shares of Canadian Husky Oil Ltd. on the basis of \$17 per share at the election of either party. It would require 176,470 of the unissued shares of the company to repay the advance and such shares have been reserved for this purpose.

4. OTHER PAID IN CAPITAL:

The conditions attached to the preferred shares of Canadian Husky Oil Ltd. provide for certain restrictions on the payment of dividends on its common shares. Under these restrictions none of the other paid in capital is available for dividends on the common shares as of December 31, 1958.

5. COMMITMENTS AND CONTINGENCIES:

Husky Oil & Refining Ltd. has outstanding certain long term lease agreements, in respect to certain marketing assets, with Husky Leasebacks Limited. The annual rental commitment under lease agreements is approximately \$181,900 per annum. The leases may be terminated under certain conditions. Husky Oil & Refining Ltd. has an option to purchase all of the outstanding shares of Husky Leasebacks Limited at any time during the terms of the leases for a consideration of \$2,000.

Husky Oil & Refining Ltd. leased certain office premises on October 1, 1954 for a period of 10 years at an annual rental of \$93,850.

Certain commitments or contingencies exist which may involve costs or losses arising in the ordinary course of business, the amounts of which, however, are not considered to be significant.

6. CONSOLIDATED STATEMENT OF EARNINGS:

During the year ended December 31, 1958 the company acquired all of the assets and undertakings of Liberal Petroleum Ltd. which included all of the outstanding shares of Paul Guthrie Development, Ltd. The accompanying consolidated statement of earnings includes the operations of Paul Guthrie Development, Ltd. for the period from February 28, 1958 (the date of acquisition) to December 31, 1958.

NOTES CONTINUED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Husky Oil Ltd. and subsidiary companies as of December 31, 1958 and the consolidated statements of earnings and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

During the year a subsidiary company revalued certain petroleum and natural gas leases resulting in a charge to reinvested earnings (deficit) of \$4,304,962. Had the company not revalued these leases the provision for depletion for the year ended December 31, 1958 would have been greater by approximately \$1,153,000 and the net loss for the year would have been greater by a corresponding amount.

In our opinion the accompanying consolidated balance sheet and consolidated statements of earnings and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Husky Oil Ltd. and subsidiary companies at December 31, 1958, presented on a consolidated basis and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Calgary, Alberta
February 27, 1959

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

Processing units at one of Canadian Husky's three modern refineries. All three plants refine a full line of quality Husky brand petroleum products.



CANADIAN HUSKY OIL LTD. AND SUBSIDIARIES



FINANCIAL

1958

1957

Gross operating income	\$16,078,741	\$18,951,120
Costs, operating and general expenses	14,708,798	15,820,870
	1,369,943	3,130,250
Other income	680,626	233,852
	2,050,569	3,364,102
Other charges		
Depreciation and depletion	1,860,247	2,021,876
Exploration expense and overhead	1,386,685	882,734
Interest charges	571,185	590,668
Net earnings (loss)	(1,767,548)	(131,176)
Net working capital	7,025,471	7,501,754
Long term debt	13,431,665	12,233,066
Preferred shares outstanding, at par value	3,568,150	3,568,150
Preferred Share dividends.	214,089	214,089
Common shares outstanding, at par value \$1 per share	3,056,533	2,614,390
OPERATING		
Net crude oil production (barrels)	806,298	937,485
Average barrels per day	2,209	2,568
Natural gas production (MCF)	991,305	807,066
Average MCF per day	2,716	2,211
Crude oil processed (barrels)	3,461,712	4,060,887
Average barrels per day	9,484	11,126
Net refinery and marketing sales (barrels)	3,621,460	3,825,330
Marketing outlets at year end	154	128
Number of wells drilled—gross (net)	50 (15.8)	77 (28.1)
Exploratory	17 (4.7)	36 (13.6)
Development	33 (11.2)	41 (14.5)
Successful wells completed—gross (net)		
Exploratory	6 (1.7)	10 (4.1)
Development	30 (10.4)	31 (10.5)

TEN YEAR FINANCIAL AND OPERATING SUMMARY

1956	1955	1954	1953	1952	1951	1950	1949
\$16,886,340	\$13,668,452	\$ 9,725,017	\$ 8,007,351	\$ 8,463,941	\$4,213,479	\$3,527,978	\$ 2,379,094
13,973,449	11,137,804	7,303,373	5,865,425	5,879,792	3,343,334	2,700,791	2,196,423
2,912,891	2,530,648	2,421,644	2,141,926	2,584,149	870,145	827,187	182,671
98,913	219,503	103,280	83,609	60,065	39,587	13,173	667,113
3,011,804	2,750,151	2,524,924	2,225,535	2,644,214	909,732	840,360	849,784
1,838,113	1,676,157	1,122,598	998,052	826,338	287,261	165,265	149,233
675,698	692,294	725,188	539,250	347,061	258,070	211,617	158,492
478,463	373,502	190,500	164,258	55,945	113,183	121,287	85,144
19,530	8,198	486,638	523,975	1,414,870	251,218	342,191	456,915
3,591,088	4,172,358	8,266,066	3,389,372	4,730,478	3,284,597	1,179,961	1,581,752
9,881,360	9,443,351	10,075,105	2,854,224	3,091,586	2,035,234	2,138,978	2,264,734
3,568,150	3,568,150	3,503,950	165,800	—	—	—	—
214,089	212,426	111,275	2,518	—	—	—	—
1,971,342	1,959,017	1,958,357	1,957,857	1,957,857	1,461,175	1,090,846	1,090,846
928,421	904,278	575,350	481,727	492,792	137,899	68,804	67,525
2,544	2,477	1,576	1,320	1,350	378	188	185
929,059	1,070,252	1,124,137	705,947	340,969	19,686	—	—
2,545	2,932	3,080	1,934	934	54	—	—
4,240,948	3,689,958	2,651,812	2,325,874	2,098,243	1,479,539	1,279,155	947,971
11,619	10,109	7,265	6,372	5,749	4,053	3,504	2,597
4,121,427	3,643,538	2,716,328	2,405,692	2,153,801	1,377,869	1,309,428	1,048,261
111	67	28	8	—	—	—	—
94 (24.1)	98 (33.0)	75 (18.1)	56 (24.9)	53 (17.6)	28 (10.5)	22 (7.7)	9 (6.2)
46 (16.1)	60 (17.5)	44 (13.3)	36 (17.7)	34 (11.0)	20 (5.7)	19 (5.6)	6 (5.1)
48 (8.0)	38 (15.5)	31 (4.7)	20 (7.2)	19 (6.6)	8 (4.8)	3 (2.1)	3 (1.1)
15 (4.8)	11 (2.1)	8 (3.2)	5 (1.9)	6 (1.4)	3 (.7)	2 (1.1)	4 (2.1)
40 (6.4)	30 (13.9)	26 (3.9)	19 (6.9)	14 (4.6)	4 (3.7)	1 (.1)	1 (.5)

BOARD OF DIRECTORS

GEORGE S. BUCHANAN, *Cody, Wyoming*
P. J. GUTHRIE, *Edmonton, Alberta*
R. L. HUNTER, *Montreal, Quebec*
LAWRENCE W. LEE, *Calgary, Alberta*
M. A. MACPHERSON, SR. Q.C., *Regina, Saskatchewan*
F. R. MATTHEWS, *Calgary, Alberta*
J. K. MCCAUSLAND, *Toronto, Ontario*
J. W. MILLAR, *Edmonton, Alberta*
GLENN E. NIELSON, *Cody, Wyoming*
P. R. PAYN, *Como, Quebec*
LLOYD TAGGART, *Cody, Wyoming*

OFFICERS

GLENN E. NIELSON, *President*
LAWRENCE W. LEE, *Executive Vice-President and General Manager*
L. J. CAMPBELL, *Vice-President, Refining*
A. C. KNIGHT, *Vice-President, Marketing*
ARNOLD LARSEN, *Vice-President, Finance; Secretary and Treasurer*
J. R. McNULTY, *Vice-President, Industrial Relations*
W. E. POWELL, *Vice-President, Exploration and Production*
W. F. McWHINNEY, *Comptroller*
R. G. P. MACLELLAN, *Assistant Secretary*
J. L. SNITH, *Assistant Secretary*
J. D. WINZENRIED, *Assistant Secretary*

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COMMON SHARES

Listed on the Toronto and Montreal Stock Exchanges
Montreal Trust Company, *Calgary, Halifax, Montreal, Regina,*
Saint John, Toronto, Vancouver, Winnipeg
The Chase Manhattan Bank, *New York, New York*

PREFERRED SHARES

Montreal Trust Company, *Calgary*



Travelcentres such as this
one form the nucleus of
Canadian Husky's
marketing operation.
Located on main highways
from eastern Ontario
to the Rockies, each
Travelcentre is a complete
one-stop service point.



Canadian **HUSKY** *Oil Ltd.*

TO THE REMAINING SHAREHOLDERS OF LIBERAL PETROLEUMS LTD.:

On February 28, 1958 Canadian Husky Oil Ltd. completed the purchase of the assets of Liberal Petroleum Ltd. Since you are a registered shareholder of Liberal, the enclosed copy of the eleventh Annual Report of Canadian Husky should be of interest to you.

We regret that we cannot also enclose copies of the notice of meeting and proxy for Canadian Husky's Annual and Special Meeting of Shareholders, but according to our records you have not yet exchanged your Liberal certificates for shares of Canadian Husky. We suggest that you do this as soon as possible.

If you have not received the material concerning the exchange of your Liberal certificates, just drop a line to Prudential Trust Company Limited, 10175 - 100 A Street, Edmonton, Alberta, Canada. They will forward the necessary material promptly.

CANADIAN HUSKY OIL LTD.
815 SIXTH STREET WEST,
CALGARY, ALBERTA, CANADA

